

Memorandum

To: MARK LEJA,
Construction Program Manager, Acting

Date: January 23, 2008
File No.: P2200-0417
Contract No.: 08-334844

Attention: MICHAEL KISSEL
Chief, Office of Contract Administration

From: DEPARTMENT OF TRANSPORTATION
Audits and Investigations

Subject: Special Audit Request – Washington/Obayashi JV Cost Escalation Claim

We completed an audit of costs claimed for Contract No. 08-334844 between the Department of Transportation (Department) and Washington/Obayashi JV (Contractor). The Contractor claimed costs of \$558,240.73 relating to labor, equipment and materials escalation costs for February 2007 in accordance with the Code of Federal Regulations (CFR) 48, Chapter 1 Part 31, the Department Standard Specifications and the contract provisions. The claimed costs are the responsibility of the Contractor's management and our responsibility, based on our audit, is to express an opinion regarding those costs.

Our audit was conducted in accordance with the Performance Standards set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance that the data and records reviewed are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and the records reviewed. It also includes assessing the accounting principles and significant estimates made by the Contractor's management, as well as evaluating the overall presentation. We believe that our audit provides a reasonable basis for our opinion.

The scope of the audit was limited to financial and compliance activities related to Contract No. 08-334844 and the allowability of the proposed claim in accordance with the requirements set forth by the Department Standard Specifications, Contract Special Provisions and Code of Federal Regulations (CFR) 48, Chapter 1, Part 31. The audit consisted of determining the reasonableness of the labor, equipment and materials escalation costs claimed for February 2007. Transactions arising subsequent to February 2007, were not tested and, accordingly, we do not express an opinion on costs or credits arising after this date. Our audit included such tests as we considered necessary to achieve the following objective:

- To determine if the costs claimed are supported and reflects costs allowable under the Code of Federal Regulations (CFR) 48, Chapter 1, Part 31.
- To determine if the costs claimed are in compliance with the Department Standard Specifications.

AUDIT RESULTS

In our opinion, the Contractor has not fully supported the costs claimed in the amount of \$558,240.73 related to escalation cost claims for labor, equipment and materials for February 2007. Based on our audit of the Contractor's project cost records and interviews with the Contractor and Department construction personnel, we determined the Contractor can support \$337,659.13 (See Exhibit A). The following exceptions were noted:

Finding 1

The Contractor has claimed \$151,618.88 in Labor Escalation costs for February 2007. Based on our audit, we determined the Contractor can support Labor Escalation costs of \$101,322.58 for February 2007 per FAR 31.201-3.

Recommendation: We recommend the Department disallow \$50,296.30 of the \$151,618.88 claimed for February 2007 labor escalation costs.

Finding 2

The Contractor has claimed \$254,815.75 in equipment escalation costs for February 2007. Based on our audit, we determined the Contractor can support equipment escalation costs of \$123,497.84 for February 2007 per FAR 31.201-3.

Recommendation: We recommend the Department disallow \$131,317.91 of the \$254,815.75 claimed for February 2007 equipment escalation costs.

Finding 3

The Contractor has claimed \$15,744.70 in materials/concrete escalation costs for February 2007. Based on our audit, we determined the Contractor can support materials/concrete escalation costs of \$0.00 for February 2007 per FAR 31.201-3.

Recommendation: We recommend the Department disallow all \$15,744.70 claimed for February 2007 materials/concrete escalation costs.

Finding 4

The Contractor has claimed \$136,061.40 in materials/supplies escalation costs for February 2007. Based on our audit, we determined the Contractor can support materials/supplies escalation costs of \$112,838.71 for February 2007 per FAR 31.201-3.

Recommendation: We recommend the Department disallow all \$23,222.69 of the \$136,061.40 claimed for February 2007 materials/supplies escalation costs.

The audit findings were discussed with ChiaChi Wang, District 8 Construction Engineer and Vern Jones, Construction Coordinator on January 18, 2008.

This report is intended for the information of the Department's management, the Federal Highway Administration, and the Contractor. However, this report is a matter of public record and its distribution is not limited.

If you have any questions concerning the audit, please contact Ryan Baer at (916) 323-7882.

ORIGINAL SIGNED BY:

RYAN BAER
Auditor

Approved:

ORIGINAL SIGNED BY:

CARLOS M. AGUILA
Audit Manager

Attachments

c: VJones, HQ Construction Coordinator
CWang, District 8 Construction Engineer

EXHIBIT A - SUMMARY OF FINDINGS**P2200-0417****08-334844****Washington/Obayshi JV**

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SUMMARY OF AMOUNTS AUDITED

Description	Cost Claimed	Supported Cost	Questioned	Notes
			Cost	
February 2007 Labor Escalation	\$151,618.88	\$101,322.58	\$50,296.30	See Exhibit B
February 2007 Equipment Escalation	\$254,815.75	\$123,497.84	\$131,317.91	See Exhibit C
February 2007 Materials/Concrete Escalation	\$15,744.70	\$0.00	\$15,744.70	
February 2007 Materials/Supplies Escalation	\$136,061.40	\$112,838.71	\$23,222.69	
	<u>\$558,240.73</u>	<u>\$337,659.13</u>	<u>\$220,581.60</u>	

EXHIBIT B - Labor Escalation Claim**P2200-0417****08-334844****Washington/Obayshi JV**

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Union Code (s)	Union Name	Supported Hours applied for Escalation	Labor Rate Escalation Claimed	Labor Rate Escalation Supported (a)	Supported Labor Escalation
TE-SC	Teamsters	3,718.0	\$ 4.57	\$ 1.25	\$ 4,647.50
LA-SC	Laborers	7,550.0	\$ 3.57	\$ 2.55	\$ 19,252.50
LA-SC1	Laborer's Appr	514.5	\$ 3.57	\$ 2.55	\$ 1,311.98
CP-SC & PD-SC	Carpenter's	9,449.0	\$ 4.02	\$ 3.08	\$ 29,102.92
	Carpenter Appr. (all)	2,892.0	\$ 4.02	\$ 3.08	\$ 8,907.36
OE-SC	Operators	10,356.5	\$ 4.41	\$ 3.09	\$ 32,001.59
OE-SC1	Operators Appr	269.0	\$ 4.41	\$ 3.09	\$ 831.21
CM-SC	Cement Masons	1,447.0	\$ 4.64	\$ 2.88	\$ 4,167.36
	Cement Masons Appr (all)	382.0	\$ 4.64	\$ 2.88	\$ 1,100.16
	Total				\$ 101,322.58

Total Change Order Request Supported: \$ 101,322.58

Notes

- (a) To determine the reasonableness of the benchmark rate used to determine the escalation rate to be applied to supported hours, we established a weighted average rate for each of the above classifications using the prevailing wage rate determinations. The weighted rate was based on the relevant prevailing wages from March 2004 to January 2007 (35 months). We believe the weighted average calculated is a reasonable benchmark, as these rates are the actual rates required to be paid during the period of

EXHIBIT C - Equipment Escalation Claim**P2200-0417****08-334844****Washington/Obayshi JV**

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	Claimed Cost	Supported Cost
Claimed equipment supported for escalation	\$ 226,871.74	\$ 123,497.84
Claimed Equipment listed but not claimed and equipment which did not reconcile to the equipment rental rate book	21,331.13	-
Claimed equipment which is 100 percent idle	<u>6,612.88</u>	<u>-</u>
Total	<u>\$ 254,815.75</u>	<u>\$ 123,497.84</u>